

TREASURY OVERSIGHT COMMITTEE  
MINUTES OF MEETING  
October 25, 2006

ATTENDANCE:

**PRESENT:**

Members: Barry I. Newman, Public Member, Chairman  
Dan McAllister, Treasurer-Tax Collector  
Helen Robbins-Meyer, Assistant Chief Administrative Officer  
Tracy Sandoval, Asst. Chief Financial Officer, Auditor & Controller  
Lora Duzyk, Asst. Superintendent, S.D. Co. Office of Ed  
Vernon Evans, Public Member  
Annette Hubbell, Public Member  
Renee Wasmund, Public Member  
Chris Zapata, Public Member  
Wilmer Cooks, Public Member

Ex-Officio Members Donald Steuer, Chief Financial Officer, Auditor & Controller

ABSENT: Janel Pehau, Director, Office of Financial Planning

County Staff: Lisa Marie Harris, Deputy Treasurer, Treasury Division  
Rob Castetter, Chief Investment Officer, Treasurer-Tax Collector  
Mark Van Den Herik, Investment Officer, Treasurer-Tax Collector  
Jorge Sandoval, Investment Officer, Treasurer-Tax Collector  
Orgia Senior, Administrative Secretary, Treasurer-Tax Collector  
Cecilia Trinidad, Assistant Manager, Treasurer-Tax Collector  
Bill Smith, Sr. Deputy County Counsel

Guest: William A. Kowba, Chief Financial Officer, S.D. Co. Unified School District

**1. CALL MEETING TO ORDER**

Chairman, Mr. Barry Newman, called the meeting to order at 1:35 p.m. in Tower 8 of the County Administration Center. Mr. Newman temporarily adjourned the meeting for the annual Treasury Oversight photograph.

**2. REQUEST BY PUBLIC TO ADDRESS THE TREASURY OVERSIGHT COMMITTEE ON ANY MATTER WITHIN THE COMMITTEE'S JURISDICTION**

There were no comments from members of the public for the Treasury Oversight Committee.

3. **APPROVAL OF APRIL 26, 2006, MEETING AGREEMENTS/ACTIONS AND MINUTES.**

Mr. Newman asked for a motion to approve the minutes from the last meeting on April 26, 2006. The motion to approve was made, seconded, and approved by committee members.

4. **INTRODUCTION OF WILLIAM A. KOWBA**

Mr. McAllister introduced Mr. William A. Kowba, the Chief Financial Officer for the San Diego Unified School District to committee members. Mr. McAllister stated that Mr. Kowba served as a Rear Admiral in the U.S. Navy. Mr. McAllister intends to nominate Mr. Kowba to fill the vacant position.

5. **TREASURER'S PROJECTS**

- **Recommendations to Invest in CAL TRUST**

Mr. McAllister reported that the County will invest in CAL TRUST, a fund that is designed to extract consistent yields out of investments and fixed income instruments. At the request of the County, CAL TRUST Board received a rating from Standard & Poor's on the Short-Term Account. On October 10<sup>th</sup>, Standard & Poor's announced that it had assigned the Short-Term Account a credit quality rating of 'AA' and a volatility rating of 'S1+'.

The Standard and Poor's announcement notes that the 'AA' credit quality reflects "very strong protection against losses from credit defaults"; while the S1+ volatility rating recognizes that the fund possesses "an extremely low sensitivity to changing market conditions and has an aggregate level of risk that is less than or equal to that of a portfolio comprised on the highest quality fixed-income securities with an average maturity of one year or less".

Mr. McAllister proposed to invest \$25 million in CAL TRUST. At the end of September, CAL TRUST short-term yield account was 5.32%. Mr. McAllister indicated that by investing \$25 million, it would give the County a chance to add to the County's over all yields. Mr. Newman indicated

that a motion to approve the \$25 million investment is not needed as the report in the minutes is sufficient.

- **Custodian Bank – Request for Statement of Qualifications (RFSQ)**

Mr. McAllister stated that the County Treasurer's office will be interviewing with the Bank of New York and State Street to evaluate their qualifications to serve as the County's Custodian. A final decision should be made by the end of November.

- **Financial Advisor – Request for Statement of Qualifications (RFSQ)**

Financial Advisor Chandler Asset Management contract awarded October, 2006. Contract Scope includes:

- Develop a benchmark
- Formulate monthly, quarterly, annual reports
- Provide financial market feedback as requested
- Review trading activity & portfolio characteristics –second set of eyes
- Serve as resource to the Treasurer's Office.

- **County Annual Financial Report (CAFR)**

Mr. McAllister reported that the County's Pool (CAFR) and the dedicated portfolios (CAFR) will be completed by the end of November.

Ms. Harris has stated there are two parts. As requested by the Auditor, the audit will include the dedicated portfolios (First 5 Commission and the Tobacco Program). The County's Pool audit will be completed by the end of October; and the dedicated portfolios will be completed by the end of November.

6. **NET CAPITAL REQUIREMENT –  
SUB-COMMITTEE REPORT RECOMMENDATIONS**

Mr. Vernon Evans reported that the sub-committee for the Net Capital Requirement met several times to discuss the net capital requirements for broker-dealers. He stated that the minimum requirement for the broker-dealers to invest was \$10 million dollar which eliminated all of the small and minority broker-dealers. Mr. Evans stated that the sub-committee's recommendations were to determine the appropriate requirements to achieve safety, liquidity and yield. The bulk of the research was completed by Chandler Asset Management

and their report is included. Chandler Asset did conclude that as long as the trades are settled on a delivery-vs.-payment (DIP basis), the County should not incur any undue risk to the principal when transacting with broker-dealers. Based on that research, the sub-committee recommended that the minimum requirement be changed from \$10 million dollars to \$1 million dollars, which will allow the County to include small firms on the broker-dealers approved list.

Ms. Annette Hubbell asked how does the County plan to get the word out to the brokers that the minimum requirement has been changed. Ms. Harris stated that the broker-dealer list will be sent out next year and the brokers will be notified at that time. The County already has a list of 25 broker-dealers and they can compete next year.

A motion was requested by Mr. Newman moved, seconded and approved to adopt the \$1 million dollar minimum investment requirement for all broker-dealers.

**7. EDUCATIONAL PRESENTATION: SECURITIES LENDING PROGRAM**

Ms. Harris introduced Ms. Kay Chandler, of Chandler Asset Management, who is the County's new financial advisor. Ms. Chandler gave the Oversight Committee an education presentation on Securities Lending.

Ms. Helen Robbins-Meyer recommended that the staff meet with the City of Los Angeles to learn about their securities lending program.

**8. ANNUAL INVESTMENT POLICY STATEMENT**

Ms. Harris briefly reviewed the red line changes in the Investment Policy. There were minor changes to the Investment Policy for 2007. An existing budgeted position of Assistant Manager was added to the Investment Policy to assist in trading the Investment portfolio.

The sub-committee's recommendations on the new definitions for liquid and illiquid were added throughout the policy. On Page 17 of the Investment Policy a change was made requesting that the net capital requirement be lowered from \$10 million dollars to \$1 million dollars per approval of the Oversight Committee.

A motion was requested by Mr. Newman moved, seconded, and approved to adopt the 2007 Investment Policy for submission to the Board of Supervisors. It was recommended that committee members should review the Investment Policy. If there are any additional changes, please submit them by Monday, October 30, 2006.

Ms. Harris mentioned that Standard & Poor's commended the staff and the Treasury Oversight Committee members for the new liquidity definitions they will use in the 2007 Investment Policy.

9. **PRESENTATION ON MARKET CONDITIONS:**

**TREASURY INVESTMENT REPORT**

Mr. Castetter, Chief Investment Officer, gave a brief report on the market conditions. The treasury market yield for two years is 4.90%. For the last 12 months the consumer price index has been 2.10%. The real rate of return is 115 basis points below the 4% target most investors will accept.

10. **ANNUAL FISCAL REVIEW OF BROKERS AS OF JUNE 30, 2006**

Ms. Harris disclosed the annual fiscal report for the Brokers as of June 30, 2006 to committee members.

11. **NEXT TREASURY OVERSIGHT MEETING**

All Treasury Oversight Committee Meetings for 2007 will be held at the County Administration Bldg., 1600 Pacific Hwy., at 1:30 p.m. in Room 402A.

April 25, 2007

July 25, 2007

October 24, 2007

November 14, 2007

The meeting adjourned at 2:50 p.m.

Minutes taken by: Orgia Senior, Administrative Secretary